# AMERICAN EAGLE PETROLEUMS LTD.

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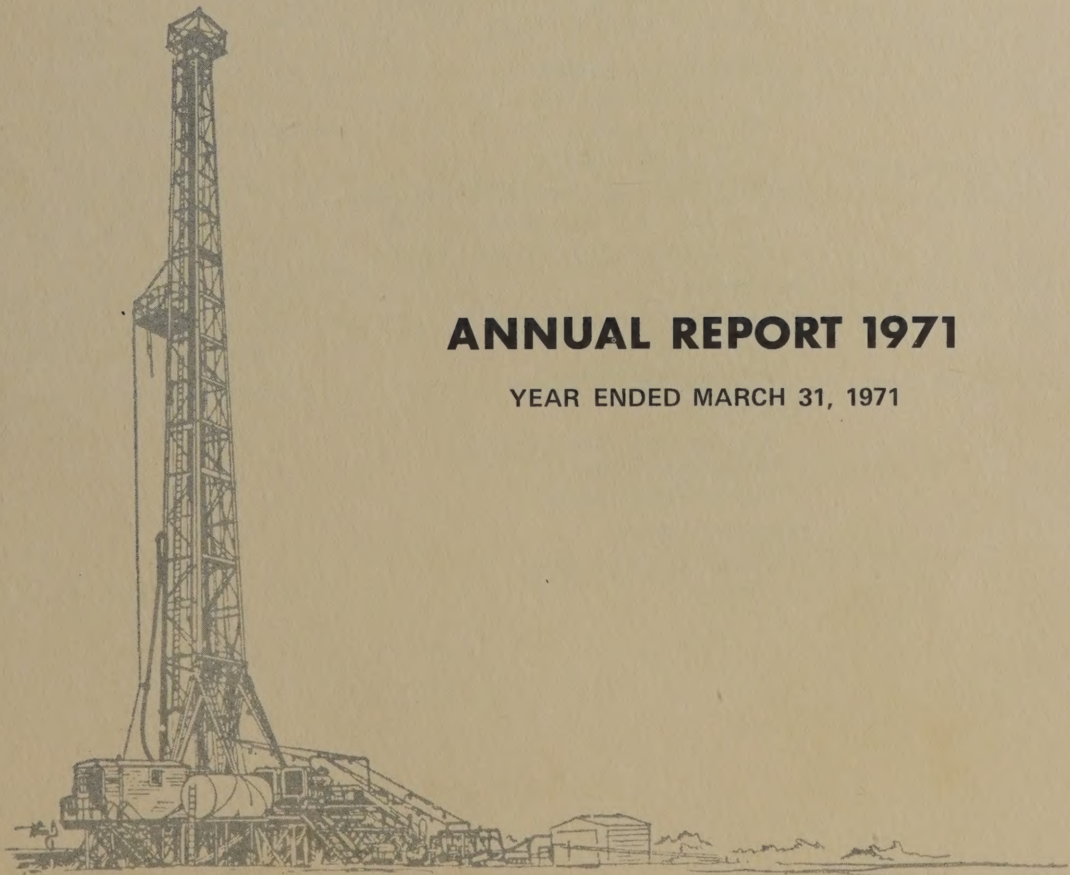

## ANNUAL REPORT 1971

YEAR ENDED MARCH 31, 1971

## HEAD OFFICE

205 Brent Building,
Regina, Saskatchewan

## DIRECTORS

Robert L. Bell, Calgary, Alberta
Martin Dillman, Regina, Saskatchewan
Robert F. Goss, Calgary, Alberta
Peter R. Kutney, Vancouver, British Columbia
Ronald B. Jorensen, Tigard, Oregon
Frank J. Wald, Seattle, Washington

## OFFICERS

Martin Dillman, President
Robert L. Bell, Vice President
Ronald B. Sorensen, Vice President
Robert F. Goss, Secretary

## SUBSIDIARY COMPANY
## GULL OIL & GAS LTD.

205 Brent Building
Regina, Saskatchewan

## REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
311 - 8th Ave. S.W., Calgary, Alberta

## BANKERS

The Royal Bank of Canada
Main Branch
Regina, Saskatchewan

## AUDITORS

Peat, Marwick, Mitchell & Co.
640 Avord Tower
Regina, Saskatchewan

## SHARES LISTED

Calgary Stock Exchange

**TO THE SHAREHOLDERS:**

Your Directors are pleased to present the Annual Report of your Company together with Consolidated Financial Statements and Auditors' Report for the fiscal year ended March 31st, 1971.

This year has been one of substantial change which may well mark a turning point in the life of your Company.

New properties were acquired mainly in exchange for shares of the Company. A portion of the Company's assets were sold because they were not within the Company's resources to develop, or the rate of return was considered to be unsatisfactory. Proceeds were used to pay off existing debts and to participate in a highly prospective drilling program in the Zama Lake Area of Northern Alberta. Three wells have been completed on this program at the time of this writing.

Results of last year's activities and land holdings are discussed in detail under various headings. The most significant items were:

- The Company's shares were listed for trade on the Calgary Stock Exchange on March 23, 1971. Our designated ticker symbol is "AEO".
- Acquisition of .5% Net Smelter Royalties on 1,279,861 gross acres of Federal Prospecting Permits in the Northwest Territories of Canada for 100,000 shares of stock.
- Acquisition of 50% interest in 409,508 acres of Eastcoast Offshore Oil & Gas Permits for 100,000 shares of stock.
- Participation Agreement signed with J. M. Huber Corporation and Barnwell of Canada Ltd. covering a ten well drilling program in the Zama Lake Area of Northern Alberta.
- Acquisition of 5 Producing Gas Wells in Guernsey County, Ohio for $337,500.00 which have been evaluated by James A. Lewis Engineering Co. Ltd. at $450,000.00. The production purchased was financed by issuing $400,000.00 Convertible Notes and negotiations are now in progress to obtain major financing for acquisition of producing properties and development of proven and semi-proven properties.

Your management feels most optimistic about the future of the oil and gas industry and plans are being laid to continue expanding our activities in a manner which should enable the Company to grow and prosper.

During the year the Directors regretfully accepted the resignation of Mr. Lewis Dillman, founder and former President of the Company. Messrs. Robert F. Goss and Robert L. Bell, both of Calgary were appointed to the Board, and their background and experience have been most helpful in the past months.

In closing the Directors wish to extend thanks to our shareholders for their patience and support.

Respectfully Submitted,

MARTIN DILLMAN,
President.

**July 12, 1971**

## FINANCIAL

Gross revenue from crude oil sales amounted to $108,066 net after royalty costs deducted. As a result of price increases of about 25c per bbl. late in 1970 and the drilling of new wells, and the acquisition of producing properties during the current year it is estimated that gross revenue should increase by over 100%.

The Company sold its interest in the heavy oil production in East Central Alberta, along with some of its non-producing lease interests. This resulted in a substantial write off and accounts for most of our loss for the year. Since these properties accounted for a disproportionate share of production expenses and the wellhead price of heavy oil did not leave a satisfactory margin it was considered in the best interest of the company to dispose of these properties to go into the Zama Lake participation.

## EXPLORATION AND DEVELOPMENT

### 1. Arctic Islands

During the year American Eagle made a farmout of 60,770 acres of its permit lands in the Ellsmere Island area to Canada Cities Service Ltd. and Getty Oil Company. These companies have also acquired the offsetting acreage from Sunlite Oil Co. under terms where they must spend 40c per acre and drill a well to earn an interest. Your company retains a 3% Gross Overriding Royalty.

A further farmout of 99,117 acres located partially on Bathurst Island and extending almost to Cornwallis Island was made to Cities Service and Getty, the company again retaining a 3% Gross Overriding Royalty. Wells are presently drilling on Ellsmere, Bathurst and Cornwallis Islands. Two are scheduled to be drilled on Cornwallis Island this year, and a further well is scheduled for Bathurst later this year.

### 2. Canada, East Coast

The Company has a 50% interest in 409,508 acres of exploration permits located offshore from Nova Scotia in the general area where Shell Oil Canada is carrying on an extensive drilling program with many of the wells encountering shows of hydrocarbons in various amounts. In the same general area Mobil Oil Canada has recently reported what may be a commercial gas well on Sable Island.

Further the Company has a 15% interest in 1,130,097 acres offshore from Newfoundland and Labrador. These areas are both seeing increased activity with geophysical work taking place and a number of wells scheduled for this year.

### 3. Zama Lake, Alberta

American Eagle has a 10% participation on a farmout from Imperial Oil Limited on a possible 12 drilling locations. Three wells have been completed as oil producers to the end of June. These are considered low risk, fast payout prospects and it is anticipated that all wells in the program will be drilled by the end of 1971.

### 4. Vermillion, Alberta - 1,768 net acres.

These leases contain wells in the Vermillion Oil Field which were abandoned in the early 1960's after producing 1,347,211 barrels of oil. Original oil in place was estimated at 11,547,000 barrels. Ashland Oil & Refining Company has purchased acreage in this field and it is their intention to install a pilot project to attempt secondary recovery by fireflood. This type of secondary recovery is still in the experimental stage, however in Saskatchewan, Mobil Oil Canada has almost 100% recovery from a similar project.

### 5. Wildmere, Alberta - 12,883 acres

These leases have three capped gas wells in which American Eagle has varying interests. It is believed that three or four more wells could be developed if an adequate marketing arrangement can be made.

### 6. Guernsey County, Ohio, U.S.A.

Since our year end the company has purchased 5 producing gas wells in Guernsey

County, Ohio for $337,500.00. The properties have been evaluated by James A. Lewis Engineering Co. Ltd. at $450,000.00. The production purchased was financed by issuing $400,000.00 Convertible Notes and negotiations are now in progress to obtain major financing for acquisition of producing properties and development of proven and semi-proven properties.

### 7. Muskingum County, Ohio, U.S.A.

The Company has acquired 7 offsetting leases in Muskingum County, Ohio for 67,000 shares. These leases are gas prospects valued at $83,000.00 by James Lewis Engineering Co. Ltd.

### 8. New Geophysical System

American Eagle is purchasing an interest in a company which is presently developing a new Geophysical Technique to be used in finding hydrocarbons. Our cost is $40,000.00 for a 20% interest with an option to purchase an additional 20% interest for a further $40,000.00. If the projections of the co-inventors are correct then your Company's success ratio of drilling would be nearly 100%.

## MINERAL EXPLORATION

1. American Eagle has a 100% interest in a 1,280 acre Claim Block in the La Ronge, Saskatchewan mining camp. Complete Magnetic and Electro-Magnetic surveys were performed last year and diamond drilling is recommended by the Company's Consulting Engineer.

2. The Company has a .5% Net Smelter Royalty on 1,279,861 acres of prospecting permits in the Dubawnt - Baker Lake Area of the Northwest Territories. Several of these permits have had interesting Uranium showings, particularly Permit 109 on which the Mill City - Dynamic group of companies have spent close to $600,000.00 on drilling.

**AMERICAN EAGLE PETROLEUMS LTD.**

**Consolidated Balance Sheet**

**March 31, 1971**

**with comparative figures for 1970**

| ASSETS | 1971 | 1970 |
|---|---|---|
| **Current assets:** | | |
| Cash | $ 3,923 | 5,895 |
| Accounts receivable - trade (note 4) | 8,676 | 8,224 |
| Accounts receivable - other (note 3) | 76,600 | — |
| Total current assets | 89,199 | 14,119 |
| Savings certificate (note 5) | 31,800 | 31,800 |
| Property and equipment, at cost (notes 1, 2, 3, 4 & 5) | 935,051 | 1,095,343 |
| Less accumulated depreciation and depletion | 434,334 | 459,107 |
| Net property and equipment | 500,717 | 636,236 |
| Refundable deposits | 11,215 | 9,551 |
| | $ 632,931 | 691,706 |

Liabilities and Shareholders' Equity

| | 1971 | 1970 |
|---|---|---|
| **Current liabilities:** | | |
| Bank loan maturing within one year (note 4) | $ 36,000 | 188,000 |
| Accrued interest - notes payable | 394 | 6,160 |
| Accounts payable | 46,082 | 41,605 |
| 8% notes payable on demand | — | 41,054 |
| Shareholders' loans | 35,000 | — |
| Total current liabilities | 117,476 | 276,819 |
| Long-term debt (note 4) | 217,445 | — |
| **Shareholders' equity:** | | |
| Capital stock (note 5): | | |
| Common shares of no par value, | | |
| Authorized 5,000,000 shares; issued 1,476,303 | | |
| shares (1970 - 1,276,303) - stated value | 640,634 | 533,034 |
| Contributed surplus | 253,778 | 253,778 |
| | 894,412 | 786,812 |
| Deficit | 596,402 | 371,925 |
| Total shareholders' equity | 298,010 | 414,887 |
| Commitments and contingent liabilities (note 6) | | |
| | $ 632,931 | 691,706 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

...... MARTIN DILLMAN ...... Director

...... R. F. GOSS ............. Director

## AMERICAN EAGLE PETROLEUMS LTD.

**Consolidated Statement of Income**
**Year ended March 31, 1971**
**with comparative figures for 1970**

| | 1971 | 1970 |
|---|---|---|
| **Revenue:** | | |
| Crude oil sales (1971 - 55,145 barrels, 1970 - 57,114 barrels) | $ 108,066 | 111,714 |
| Interest and other income | 8,120 | 3,515 |
| | 116,186 | 115,229 |
| **Expense:** | | |
| Production | 74,349 | 84,299 |
| Lease rentals | 18,062 | 18,846 |
| Geological | 19,272 | 17,286 |
| Dryholes and abandonments | 35,000 | 23,383 |
| Administration | 16,130 | 20,643 |
| Interest on notes | 1,600 | 6,160 |
| Interest on bank loan | 20,375 | 12,847 |
| Mineral exploration | 4,000 | — |
| | 188,788 | 183,464 |
| | 72,602 | 68,235 |
| **Other charges:** | | |
| Depreciation | 15,791 | 24,663 |
| Depletion | 14,827 | 20,724 |
| Provision for loss on sale of property and equipment | 121,257 | — |
| | 151,875 | 45,387 |
| Loss for year | $ 224,477 | 113,622 |
| Loss per share | $ 0.15 | 0.09 |

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Deficit**
**Year ended March 31, 1971**
**with comparative figures for 1970**

| | 1971 | 1970 |
|---|---|---|
| Balance at beginning of year: | | |
| As previously reported | $ 371,925 | 96,553 |
| Adjustment of prior years' depreciation and depletion | — | 9,735 |
| As restated | 371,925 | 106,288 |
| Deficit of subsidiary at date of purchase | — | 152,015 |
| Loss for year | 224,477 | 113,622 |
| Balance at end of year | $ 596,402 | 371,925 |

See accompanying notes to consolidated financial statements.

## AMERICAN EAGLE PETROLEUMS LTD.

### Consolidated Statement of Source and Application of Funds
### Year ended March 31, 1971
### with comparative figures for 1970

| | 1971 | 1970 |
|---|---|---|
| **Funds provided:** | | |
| Working capital of subsidiary on acquistion | $ — | 3,160 |
| Sale of property and equipment | 76,600 | 28,556 |
| Increase in long-term debt | 217,445 | — |
| Proceeds from issuance of share capital | 107,600 | — |
| Total funds provided | 401,645 | 31,716 |
| **Funds used:** | | |
| Loss for year | 224,477 | 113,622 |
| Less charges not requiring cash expenditure: | | |
| Provision for loss on sale of property and equipment | 121,257 | — |
| Abandonment | 35,000 | — |
| Depreciation | 15,791 | 24,663 |
| Depletion | 14,827 | 20,724 |
| | 186,875 | 45,387 |
| Funds used in operations | 37,602 | 68,235 |
| Purchase of savings certificate | — | 31,800 |
| Partial consideration for an interest in certain mining claims | — | 20,000 |
| Purchase of fixed assets | 127,956 | 180,901 |
| Increase in refundable deposits | 1,664 | 8,476 |
| Payments made on shareholder's loan, Gull Oil & Gas Ltd. | — | 36,541 |
| Total funds used | 167,222 | 345,953 |
| Increase (decrease) in working capital deficit | ($ 234,423) | 314,237 |

See accompanying notes to consolidated financial statements.

**AMERICAN EAGLE PETROLEUMS LTD.**

**Notes to Consolidated Financial Statements**

**March 31, 1971**

**1. Principles of Consolidation:**

The accompanying consolidated financial statements at March 31, 1971 and for the year ended on that date, include the accounts of the company as of March 31, 1971 and its subsidiary company, Gull Oil & Gas Ltd. as at and for the year ended December 31, 1970. Gull Oil & Gas Ltd. reported a loss of $9,300 for the year ended December 31, 1970. The excess of the purchase price over the underlying net book value at date of acquisition has on consolidation, been allocated to property and equipment, and depreciation and depletion has been provided accordingly.

**2. Property and equipment, at cost less depreciation and depletion:**

| | Cost | Accumulated Depreciation and Depletion | Net Book Value |
|---|---|---|---|
| Producing and non-producing petroleum and natural gas rights | $ 263,145 | 15,108 | 248,037 |
| Non-producing mining claims | 30,000 | — | 30,000 |
| Well development costs | 384,416 | 215,885 | 168,531 |
| Well equipment | 257,490 | 203,341 | 54,149 |
| Balance at March 31, 1971 | $ 935,051 | 434,334 | 500,717 |
| Balance at March 31, 1970 | $ 1,095,343 | 459,107 | 636,236 |

**3.** The accompanying consolidated balance sheet and consolidated statement of income gives effect to a sale on April 1, 1971, of certain producing and non-producing petroleum and natural gas rights, together with equipment thereon. Details of the sale are as follows:

| | |
|---|---|
| Net book value of assets sold | $ 197,857 |
| Proceeds realized | 76,600 |
| Loss on sale | $ 121,257 |

**4. Long-term debt:**

| | |
|---|---|
| The bank loan is secured by an assignment of an interest in certain producing properties and a general assignment of book debts. Although the loan is subject to call on demand, the agreement requires annual payment of $ 36,000 | $ 203,500 |
| 8% note payable to Columbia Petroleums Ltd. due April 1, 1972 | 20,000 |
| Non-interest bearing note payable to Mr. M. Dillman due April 1, 1972 | 4,000 |
| Accounts payable and accrued interest on which payments are deferred until April 1, 1972 with the written consent of the creditors | 25,945 |
| | 253,445 |
| Less maturing within one year | 36,000 |
| | $ 217,445 |

In addition to long-term debt described above the company has authorized the issuance of $ 100,000 principal amount of 8% debentures, maturing October 1, 1971, of which $ 50,000 was issued and redeemed in prior years. These debentures are secured by a floating charge on all property and assets of the company, both present and future.

**5. Capital stock:**

During the year the company issued the following shares:

| | Shares | Assigned Value |
|---|---|---|
| (a) In consideration for an interest in certain petroleum and natural gas rights | 100,000 | $ 57,200 |
| (b) In consideration for overriding royalty privileges on 1,279,861 acres of mineral exploration permits | 100,000 | 50,400 |
| | 200,000 | $ 107,600 |

The Directors have ascribed the above assigned values thereto.

**6. Commitments and contingent liabilities:**

The company has issued to and deposited with the Government of Canada non-interest bearing demand notes in the amount of $ 31,756 in satisfaction of work commitments on certain petroleum and natural gas rights. Such notes are guaranteed by the company's bank. As security for this guarantee, the company has hypothecated to the bank a savings certificate in the amount of $ 31,800.

The company's annual commitment for lease rentals on non-producing properties held at March 31, 1971 amounts to approximately $9,000.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of American Eagle Petroleums Ltd. and its subsidiary company as of March 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the consolidated affairs of the companies at March 31, 1971 and the results of their consolidated operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the companies that have come within our notice, in our opinion, have been within the objects and powers of the companies.

Regina, Saskatchewan
May 6, 1971

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

ALLIED PRINTERS LTD.

# AMERICAN EAGLE PETROLEUMS LTD.

## ANNUAL REPORT 1971

NINE MONTHS ENDED DECEMBER 31

AMERICAN EAGLE PETROLEUMS LTD.

# AMERICAN EAGLE PETROLEUMS LTD.

## Officers & Directors

(APRIL, 1972)

| | |
|---|---|
| Robert L. Bell, Calgary, Alberta | President & Director |
| Gerhard Kasdorf, Calgary, Alberta | Vice-President & Director |
| Peter M. Mathieson, Calgary, Alberta | Treasurer & Director |
| Harold M. Burgess, Calgary, Alberta | Secretary & Director |
| Alton O. Riley, Greenley, Colorado | Director |
| Peter L. Thuringer, Regina, Saskatchewan | Director |
| Ronald Ward, Calgary, Alberta | Director |
| Stanley R. Loeppky, Calgary, Alberta | Controller |

### Head Office

2250, Three Calgary Place
355 - 4th Avenue S.W.
Calgary, Alberta
T2P 0J1

### Subsidiary Companies

American Eagle Petroleums, Inc.
Cenpet Exploration Ltd.
Gull Oil & Gas Ltd.

### Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

### Legal Counsel

Burgess and Loucks
Calgary, Alberta

### Banker

The Royal Bank of Canada
Calgary, Alberta

### Registrars and Transfer Agent

Guaranty Trust Company of Canada
Calgary, Alberta
Montreal, Toronto, Winnipeg, Regina

### Stock Exchange Listings

Canadian Stock Exchange
(March, 1972)

Calgary Stock Exchange

# Statistical Highlights

| | December 31 1971 (Nine Months) | March 31 1971 (Twelve Months) |
|---|---|---|
| Gross Wells Drilled | | |
| Oil | 12 | 1 |
| Dry | 3 | – |
| Gross wells – Producing | 45* | 17* |
| – Shut-in | 12 | 9 |
| Net Wells – Producing | 16 | 8 |
| – Shut-in | 5 | 5 |
| Net Reserves – Proved | | |
| Oil (barrels) | 1,617,821 | 298,600 |
| Gas (thousand cubic feet) | 6,101,397 | 3,755,000 |
| Non-Producing Property Interests | | |
| Gross Acres | | |
| Petroleum and Natural Gas | 2,312,938 | 2,310,611 |
| Mineral | 242,390 | 242,390 |
| Net Acres | | |
| Petroleum and Natural Gas | 396,155 | 395,530 |
| Mineral | 6,040 | 2,296 |
| Paid-Up Capital | $2,073,634 | $640,634 |
| Shares Outstanding | 3,043,303 | 1,476,303 |
| Number of Shareholders | 643 | 538 |

*Gross wells in Units are reported on the basis of gross wells contributed.

# Directors' Report to the Shareholders

The Company's year end has been changed from March 31 to December 31. The Directors' Report for the nine month period ended December 31, 1971 together with Consolidated Financial Statements and the Auditor's Report for the same period are presented herewith.

The Company was very active in 1971. 1,500,000 treasury shares and $400,000 8% convertible notes were issued for cash and 67,000 treasury shares were issued for non-producing properties in Ohio. The net proceeds from the cash issues (in excess of $1,600,000) were used to finance an extensive exploration and development program, to acquire a 100% equity interest in Cenpet Exploration Ltd. and a 40% equity interest in E.P.C. Corporation, to acquire additional producing and non-producing properties and for general corporate purposes. During the period under review, oil and gas reserves increased significantly by 1,319,221 barrels (442%) and 2,346,397 mcf. (62%). Company production from properties to which the majority of the increased reserves relate did not commence until late in 1971 and increased production revenues are therefore not fully reflected in the current period.

The Company's shares were listed on the Calgary Stock Exchange in March, 1971 and on the Canadian Stock Exchange in March, 1972. Our new listing should provide a wider and more convenient market for the Company's shares. We are currently preparing to file a Registration Statement under the Securities Exchange Act of 1934 with the United States Securities and Exchange Commission.

Your Directors consider that the Company is now operating from a sound base of oil and gas reserves and production, and that with a continuation of the aggressive exploration, development and acquisition program established in 1971, the Company's prospects for continued growth are excellent. Since January 1, 1972, the Company has participated in the drilling of eight wells, six of which have been successful.

Respectfully Submitted On
Behalf Of The Board

Robert L. Bell

Robert L. Bell
President

Calgary, Alberta
April 26, 1972

# Exploration & Development

During the period under review, the Company carried out an extensive program of exploration and development. Drilling in the Zama area of Alberta and the Huntoon area of Saskatchewan was particularly successful and is outlined in more detail below. In addition, the Company participated in the drilling of three wells in the Grand Forks area, Alberta and one well in the Penhold area, Alberta. In Grand Forks, one well in which the Company owns a 25% working interest was completed as an oil well. The two follow-up wells in Grand Forks and the Penhold area well were dry and abandoned.

### *Zama Area, Alberta*

In the Zama area, the Company participated in a ten-well drilling program that resulted in ten commercial oil producers at December 31, 1971. The Company's net recoverable oil reserves in these wells approximate 900,000 barrels. Natural gas in commercial quantities was also encountered in all wells; these reserves have not been appraised and are not reported as proved. The Company's share of oil production from the Zama wells is expected to exceed 5,000 barrels per month throughout 1972; at the present time, there is no market for the gas. Since year end, the Company has participated in the drilling of an additional four wells in the area, three of which were successful. One additional well is planned in the present drilling program.

### *Huntoon Area, Saskatchewan*

In December, 1971, the Company participated in the drilling of two commercial oil wells in the Huntoon area. The Company's net recoverable oil reserves in these two wells exceed 160,000 barrels and the Company's share of production is expected to exceed 1,600 barrels per month throughout 1972. Since year end, the Company has participated in the drilling of an additional commercial oil well in the area and one well is currently drilling.

# Acquisitions & Investments

During the period under review, the Company made a number of significant acquisitions and investments.

### Cenpet Exploration Ltd.

In November, 1971, the Company acquired all of the outstanding shares of Cenpet Exploration Ltd. Cenpet, owns a 9.2583% working interest in the East Dollard Unit of the Dollard oilfield and working interests varying from 10% to 25% in seven producing oil wells in the Browning field, both in Saskatchewan. The Company's net recoverable reserves in these fields exceed 360,000 barrels and net oil production should exceed 5,000 barrels per month. Cenpet also owns a limited amount of non-producing acreage.

Since the current period Consolidated Statement of Income reflects only two months of Cenpet operations, the cash flow in 1972 should be increased substantially as a result of this acquisition.

### Ohio Properties

In June 1971, the Company acquired working interests varying from 50% to 100% in five producing gas wells in Guernsey County, Ohio. The Company's net recoverable reserves in these wells exceed 1,000,000 mcf. Later in 1971, the Company acquired a 100% working interest in non-producing sub-leases covering 546 additional acres in the same area. Since year end, two gas wells were drilled on these leases on a farmout, with the Company retaining a 50% working interest.

### Chauvin Area, Alberta

Late in 1971, the Company purchased working interests varying from 8.75% to 12.5% in 4,800 acres in the Chauvin area. There are three shut-in gas wells on this acreage and the Company's net recoverable gas reserves approximate 1,300,000 mcf. Attempts to acquire additional acreage in the area are continuing and negotiations are in progress for marketing this gas by September, 1972.

### E.P.C. Corporation

During the nine month period ended December 31, 1971, the Company has acquired a 40% equity interest in the E.P.C. Corporation of Denver, Colorado. E.P.C. is conducting research into new methods of geophysical exploration for oil and gas. Field trials with a preliminary prototype commenced early in 1972 and at the time of this writing results from these trials have been encouraging, although in no way conclusive. Further trials and experiments are planned.

# Non-Producing Property Interests

| | Type of Holding | Type of Interest | Gross Acres | Net Acres |
|---|---|---|---|---|
| **PETROLEUM AND NATURAL GAS** | | | | |
| Arctic Islands | | | | |
| Ellesmere Island North | Permit | RI | 60,770 | 1,823 |
| Bathurst Island East | Permit | RI | 99,117 | 2,974 |
| | | | 159,887 | 4,797 |
| East Coast Offshore | | | | |
| Flemish Cap | Permit | WI | 735,837 | 110,377 |
| Labrador Shelf | Permit | WI | 968,721 | 59,145 |
| Scotian Shelf | Permit | WI | 90,609 | 45,305 |
| Nova Scotia S.E. | Permit | WI | 276,798 | 138,399 |
| Newfoundland West | Permit | WI | 42,101 | 21,051 |
| | | | 2,114,066 | 374,277 |
| Manitoba | | | | |
| Kirkella | Lease | WI | 320 | 320 |
| Saskatchewan | | | | |
| Huntoon | Lease | WI | 333 | 108 |
| Fleming | Lease | WI | 640 | 640 |
| Dodsland | Lease | WI | 2,864 | 1,432 |
| | | | 3,837 | 2,180 |
| Alberta | | | | |
| Grand Forks | Lease | WI | 1,600 | 297 |
| Vermilion | Lease | WI | 3,637 | 1,819 |
| Wildmere East | Lease | WI | 1,920 | 960 |
| Wildmere | Lease | WI | 25,685 | 10,869 |
| Penhold | Lease | WI | 1,440 | 90 |
| | | | 34,282 | 14,035 |
| Ohio | Lease | WI | 546 | 546 |
| TOTAL PETROLEUM AND NATURAL GAS | | | 2,312,938 | 396,155 |
| **MINERAL** | | | | |
| Saskatchewan | | | | |
| LaRonge | Claim | WI | 1,280 | 1,280 |
| Northwest Territories | | | | |
| Dubawnt-Baker L.-Thelon | Permit | NSRI & WI | 241,110 | 4,760 |
| TOTAL MINERAL | | | 242,390 | 6,040 |

RI – Royalty Interest (1% considered equivalent to 5% working interest)

WI – Working Interest

NSRI – Net Smelter Royalty Interest (1% considered equivalent to 5% working interest)


ARCTIC OCEAN
ELLESMERE IS.
DEVON IS.
BANKS IS.
BATHURST IS.
VICTORIA IS.
BAFFIN IS.
Y.T.
N.W.T.
LABRADOR (NFLD.)
NFLD.
B.C.
ALTA.
SASK.
MAN.
ONT.
P.Q.
N.B.
P.E.I.
N.S.
OHIO
ATLANTIC OCEAN
PETROLEUM AND NATURAL GAS INTERESTS (PRODUCING)
PETROLEUM AND NATURAL GAS INTERESTS (NON-PRODUCING)
MINERAL INTERESTS (NON-PRODUCING)

# Consolidated Balance Sheet

DECEMBER 31, 1971

## ASSETS

| | December 31, 1971 | March 31, 1971 (As restated) |
|---|---|---|
| Current assets | | |
| Cash | $ 101,684 | $ 3,923 |
| Term bank deposit | 300,000 | – |
| Accounts receivable | 193,904 | 85,276 |
| Total current assets | 595,588 | 89,199 |
| Marketable investment, at cost | – | 31,800 |
| Investment in shares of E.P.C. Corporation, at cost (no quoted market value) | 80,929 | – |
| Property and equipment, at cost (notes 2 and 3) | 2,254,533 | 892,297 |
| Less accumulated depreciation and depletion | 546,370 | 430,201 |
| | 1,708,163 | 462,096 |
| Refundable deposits | 22,676 | 11,215 |
| | $2,407,356 | $594,310 |

## LIABILITIES

| | December 31, 1971 | March 31, 1971 (As restated) |
|---|---|---|
| Current liabilities | | |
| Accounts payable | $ 269,982 | $ 46,082 |
| Accrued interest | 16,000 | 394 |
| Long-term debt – current portion (note 3) | 5,000 | 3,000 |
| Shareholders' loans | – | 35,000 |
| Total current liabilities | 290,982 | 84,476 |
| Long-term debt (note 3) | 695,000 | 250,445 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock (note 4) | | |
| Common shares without nominal or par value: Authorized 5,000,000 shares; issued 3,043,303 shares (March 31, 1971 – 1,476,303 shares) | 2,073,634 | 640,634 |
| Deficit (note 7) | 652,260 | 381,245 |
| | 1,421,374 | 259,389 |
| Commitment (note 5) | | |
| | $2,407,356 | $594,310 |

See accompanying notes.

On behalf of the Board:

ROBERT L. BELL, Director

PETER M. MATHIESON, Director

# Consolidated Statement of Income

| | Nine months ended December 31, 1971 | Year ended March 31, 1971 (As restated) |
|---|---|---|
| Revenue | | |
| Oil and gas sales | $ 132,868 | $108,066 |
| Interest and other income | 4,542 | 8,120 |
| | 137,410 | 116,186 |
| Expense | | |
| Production | 58,836 | 74,349 |
| Lease rentals | 11,706 | 18,062 |
| Engineering and geological | 21,159 | 19,272 |
| Dryholes and abandonments | 19,745 | 35,000 |
| Cancelled and surrendered leases | 22,610 | – |
| Administration | 88,999 | 16,130 |
| Interest | | |
| Long-term | 29,035 | 21,739 |
| Other | 5,891 | 236 |
| Mineral exploration | – | 4,000 |
| Depreciation | 17,483 | 15,336 |
| Depletion | 40,093 | 13,449 |
| Provision for loss on sale of property and equipment | – | 65,586 |
| | 315,557 | 283,159 |
| Loss for period | $ 178,147 | $166,973 |
| Loss per share based on weighted average of shares outstanding during the period. The effect on the loss per share assuming the issue of all the shares reserved for issue at December 31, 1971, is anti-dilutive | $ 0.10 | $ 0.13 |

# Consolidated Statement of Deficit

| | Nine months ended December 31, 1971 | Year ended March 31, 1971 (As restated) |
|---|---|---|
| Balance at beginning of period as previously reported | $ 596,402 | $371,925 |
| Adjustment of prior years' figures (note 7) | (215,157) | (157,653) |
| As restated | 381,245 | 214,272 |
| Expenses on issue of common shares | 92,868 | – |
| Loss for period | 178,147 | 166,973 |
| Balance at end of period | $ 652,260 | $381,245 |

See accompanying notes.

# Consolidated Statement of Source and Application of Funds

| | Nine months ended December 31, 1971 | Year ended March 31, 1971 (As restated) |
|---|---|---|
| Funds provided | | |
| Proceeds from issuance of share capital | $1,433,000 | $107,600 |
| Proceeds on sale of notes | 400,000 | 49,945 |
| Bank loans | 435,000 | 227,000 |
| Proceeds on sale of marketable investment | 31,800 | – |
| Proceeds on sale of property and equipment | 2,022 | 76,600 |
| Total funds provided | 2,301,822 | 461,145 |
| Funds used | | |
| Net loss for period | 178,147 | 166,973 |
| Less charges not requiring cash expenditure: | | |
| Provision for loss on sale of property and equipment | – | 65,586 |
| Dryholes and abandonments | 19,745 | 35,000 |
| Cancelled and surrendered leases | 22,610 | – |
| Depreciation | 17,483 | 15,336 |
| Depletion | 40,093 | 13,449 |
| Other | 870 | – |
| | 100,801 | 129,371 |
| Funds used in operations | 77,346 | 37,602 |
| Bank loans | 340,500 | 26,500 |
| Investment in shares of E.P.C. Corporation | 80,929 | – |
| Purchase of property and equipment | 1,348,890 | 127,956 |
| Increase in refundable deposits | 11,461 | 1,664 |
| Expenses on issue of common shares | 92,868 | – |
| Repayment of notes | 49,945 | – |
| Total funds used | 2,001,939 | 193,722 |
| Increase in working capital | $ 299,883 | $267,423 |

See accompanying notes.

# Auditors' Report

We have examined the consolidated balance sheet of American Eagle Petroleums Ltd. and Subsidiaries as of December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the nine months then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of affairs of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (Note 7). All the transactions of the companies that have come within our notice, in our opinion, have been within the objects and powers of the companies.

Calgary, Alberta
March 24, 1972

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

# Notes to Consolidated Financial Statements

DECEMBER 31, 1971

## 1. Principles of consolidation and accounting policy:

The consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiaries, Gull Oil & Gas Ltd., American Eagle Petroleums, Inc. (incorporated August 30, 1971) and Cenpet Exploration Ltd. (acquired November 19, 1971). The statement of income includes the operations of Gull Oil & Gas Ltd. for the twelve months ended December 31, 1971, which amounted to a net loss of $2,360 and for the other subsidiaries from their respective dates of incorporation or acquisition.

The excess of the purchase price of the shares of Cenpet Exploration Ltd. over the net book value at date of acquisition has been allocated to producing properties on consolidation and depletion provided thereon.

During the period the parent company changed its fiscal year end to December 31, 1971. Comparative figures as at December 31, 1970 and for the nine months then ended are not available and therefore the figures for the year ended March 31, 1971 are presented for information purposes only.

The accounts of American Eagle Petroleums, Inc. are maintained in U.S. dollars and have been converted into Canadian dollars at equivalent rates of exchange.

The company follows the practice of charging exploration costs and lease rentals on undeveloped properties to income as incurred. Leasehold acquisition costs and drilling costs are charged to income at the time they are surrendered or determined to be non-productive. Depletion of producing leasehold and drilling costs is provided on a unit of production basis, equipment costs are depreciated on a straight line basis.

## 2. Property and equipment:

| | Cost | Accumulated depreciation and depletion | Net book value |
|---|---|---|---|
| Producing and non-producing petroleum and natural gas rights including development thereon | $1,748,817 | $296,466 | $1,452,351 |
| Non producing mining claims and interests | 80,400 | – | 80,400 |
| Well equipment | 410,123 | 248,550 | 161,573 |
| Office equipment and improvements | 15,193 | 1,354 | 13,839 |
| | $2,254,533 | $546,370 | $1,708,163 |

## 3. Long-term debt:

| | Current | Long-term |
|---|---|---|
| 8% convertible notes, due July 1, 1976 | $ – | $400,000 |
| Demand bank loan | 5,000 | 295,000 |
| | $5,000 | $695,000 |

The notes are redeemable in whole or in part at the option of the company from January 1, 1972 to the date fixed for redemption. The company has agreed that it will redeem on July 1, 1974 and 1975 one third of the principal amount of the notes outstanding immediately prior to July 1, 1974. In addition, the notes are convertible at any time from January 1, 1972 to June 30, 1976 into fully paid and non-assessable common shares of the company on the basis of one share for every $0.80 principal amount of notes.

Although the bank loan is subject to call on demand, under the agreed terms of repayment an amount of $5,000 per month ($60,000 per year) is payable. The loan is secured by a general assignment of accounts receivable and certain petroleum and natural gas properties and production proceeds.

4. **Capital stock:**

The following shares were issued during the period:

| | Shares | Assigned Value |
|---|---|---|
| Cash | 1,500,000 | $1,350,000 |
| Purchase of petroleum and natural gas rights | 67,000 | 83,000 |
| | 1,567,000 | $1,433,000 |

Common shares have been reserved for issue as follows:

| | Number of shares |
|---|---|
| Pursuant to stock options granted to directors at prices varying from $1.00 to $1.20 per share, exercisable up to April 21, 1974 | 175,000 |
| Pursuant to share purchase warrants issued to principals of an underwriter, a director of the company and a finder, at $1.50 per share expiring October 22, 1981 | 300,000 |
| On conversion of the $400,000 8% convertible notes (note 3) | 500,000 |

5. **Commitment:**

In order to retain its interests in undeveloped oil and gas properties the company will be required to pay lease rentals which, based on its holdings at December 31, 1971, will amount to approximately $20,000 per annum.

6. **Remuneration of directors and officers:**

The aggregate remuneration paid to directors and officers during the period amounted to $19,000.

7. **Adjustment of prior years' figures:**

The consolidated statements of contributed surplus and deficit at March 31, 1971 have been decreased by $253,778 and $215,157 respectively due to the change in treatment of the acquisition of Gull Oil & Gas Ltd., which acquisition was made during the year ended March 31, 1970. As a result of this change the restated balance of contributed surplus as at March 31, 1971 is nil.

8. **Income taxes:**

At December 31, 1971 the following amounts remained to be carried forward and applied against future Canadian taxable income:

| | |
|---|---|
| Exploration, development and lease acquisition costs | $1,260,000 |
| Unclaimed capital cost allowances | 118,000 |

United States Federal income tax losses to be carried forward at December 31, 1971 amounted to approximately $14,000 resulting from operating losses which are available to reduce future taxable income of the company's wholly-owned subsidiary, American Eagle Petroleums, Inc.

AMERICAN EAGLE PETROLEUMS LTD.

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